Changes in ICS Costs in Jails: 2008 to Present

This *ex parte* presentation responds to questions raised in this proceeding concerning the cost associated with Inmate Calling Service (ICS) in County and City Jails (Jails) and how those costs have evolved, if at all, since the earlier phase of this proceeding in 2008.

As described below, in 2008, the vast majority of ICS provided to Jails were fairly straightforward premise-based systems offering basic call processing functionality. At that time, a typical Jail would require essential functions, call processing, billing and collection, recording and monitoring capability, and report generation. Since that time, ICS in Jails has evolved to a centralized broadband-based platform, where call management functions are handled remotely in a central office. These changes have facilitated the provision of advanced inmate calling services to even small and mid-sized Jails, which has greatly enhanced facility safety and security. While centralization has led to certain network efficiencies and associated cost savings in some areas, in other areas costs have increased due to a variety of factors.

Migration Toward Centralized Call Processing

Over the past five years, the industry as a whole has evolved toward a more advanced VoIP-based centralized equipment platform. The initial goal was to take advantage of the cost savings resulting from the use of the declining cost of broadband services and SIP-based call termination options. Centralized platforms also enable ICS Vendors to offer a robust array of investigative tools and features to even the smallest facilities. However, centralized platforms have had a mixed impact on the cost of providing inmate phone services:

Cost Savings or Advantages	Offsetting Cost Increases
Decreased long distance call termination cost per minute	• Increased bandwidth requirement • Every call attempt must be transmitted to the centralized platform and then out to the called party (i.e. transport cost for every attempt, not just for completed, accepted calls) Typical ratio of attempted to completed calls is 4:1. • Local calls (including free local calls) now have a transport cost per minute which did not previously exist[1] • Requirement for redundancy to minimize risk of catastrophic outage of numerous facilities
Reduced field repairs (now mostly limited to phone repairs)	Increased requirement for IT professionals to manage network and technology— generally higher paid positions due to required certifications and training
Ability to offer increased features and capability to local jails of any size	Added centralized platform functionality causes added demand for bandwidth, and increases cost of hardware associated with centralized platform, required redundancy and disaster recovery

[1] Historically, premise-based systems used flat-rated local pay phone lines to complete local calls—these lines offered unlimited local calls with no per call or per minute cost. In Jails, where 80% or more of the calls are local, the additional costs for transport with centralized platforms is a significant added cost.

Increased Complexity

In contrast with the 2008 system, a typical Jail today requires an expanded list of integrations, advanced investigative tools, system redundancy, significantly increased data storage requirements, and more. All of these factors add to the cost of providing service as they require, added capital investment in equipment and infrastructure for redundancy and disaster recovery, added labor cost in the form of software development personnel, and increased system bandwidth for movement of significant data.

This basic evolution of ICS systems in Jails since 2008 is illustrated on the attached diagrams. *See 2008 ICS Customer Premise Equipment System Architecture; ICS Centralized Platform System Architecture; 2008 ICS Customer Premise Equipment (CPE) Functionality; and ICS Centralized Platform Functionality (attached hereto)*

Increased Demand for Prepaid Calling Options

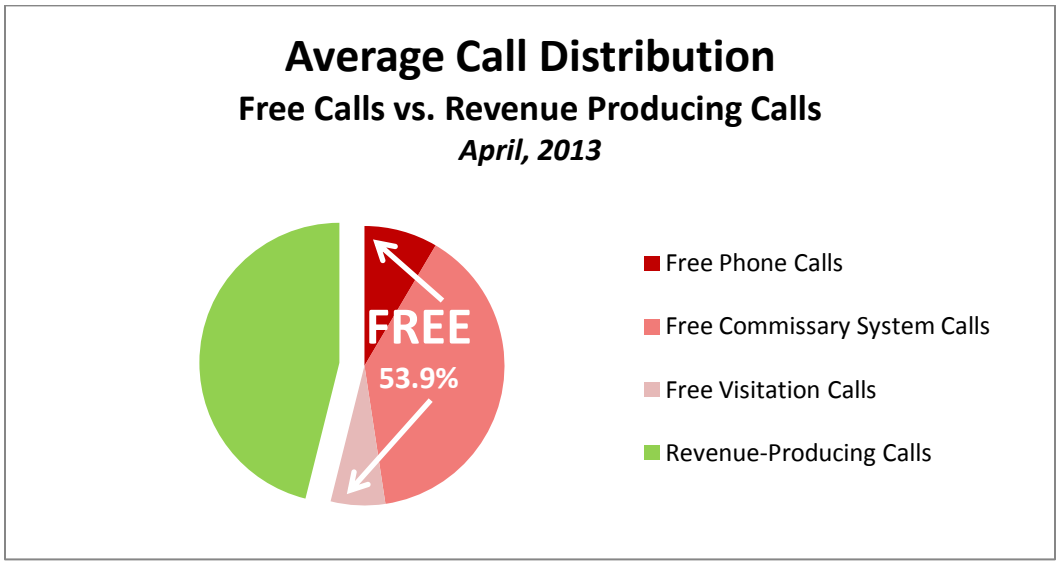
As more and more ICS calls involve calls to CLECs, VOIP and wireless phones, ICS providers have been forced to bring billing and collection functions in-house. This expanded demand for direct billing and prepaid calling options requires vendors to provide customer service, billing infrastructure, integration with tax calculation services, detailed tax and regulatory fee remittance/reporting processes, refund processing and inactive account management procedures that were not required when most calls were billed and collected by the called-party's LEC. All of these services add additional cost to the call which were not present in a LEC-billed environment as further described in the table on page 4 of this document.

Zero Revenue Phone Calls - Inmate-Benefitting Services[2], Free Calls, etc.

Demands from confinement facilities to better serve the needs of inmates has resulted in the use of the inmate phone for more functions than simply placing phone calls. Inmates now use the phone for first free calls to connect with family, free calls to public defenders, calls to perform balance inquiries on their trust accounts, calls to transfer funds to their debit phone account, calls to place commissary orders, calls to initiate kites/grievances, and more. In Jails where Pay Tel is required to provide free calls, commissary system calls, and visitation recording the average is 53.9%[3] of total phone calls, as shown in the following chart.

[2] In Pay Tel's Comments at Page 14 and Exhibit 2, and again in Pay Tel's Reply Comments at page 9, Pay Tel addresses the Distribution of Calls by Billing Platform, referring to use of the phone in a traditional sense, with the inmate calling another party outside the facility whether that call is provided free of charge or at a cost. In this document, Pay Tel is taking a broader look at all uses of the phone, including additional services provided free of charge to inmates through the phone (i.e. visitation recording, commissary ordering, trust fund account transfers, etc.) The data provided in Comments and Reply Comments is accurate; however the information provided herein gives a more comprehensive view of all of the services provided via the inmate phones in Jails today.

[3] These free calls can be much higher. For example, in the Holmes County Jail call volume for the month of April, 2013 included 78.3% "free calls" including Commissary, debit inquiries, free calls, and visitation calls.



Source: Pay Tel data for all facilities utilizing all of the free call types noted above.

Attached as Exhibit A are examples of free calling data for sample Pay Tel-served facilities.

The result is that more phones (and greater associated phone purchase and maintenance expenses) must be installed to support the same number of inmates. Broadband requirements are also substantially increased as a result of the increased "free" call activity as all of these calls must be transported from the facility to the centralized platform and then to their destination.

2008 vs. 2012

For the reasons discussed above, the efficiencies gained through the use of VoIP based centralized technology have been offset by significant increases in other costs associated with providing inmate calling service to today's Jails. The following chart shows the specific cost categories which showed substantive changes from 2008 to 2012 in Jails:

Summarized Cost Changes in Jails

Description	What Decreased	What Increased
Telecom Costs	• Long Distance Expense • Use of Pay Phone Lines	• Increased Use of DSL Service • New expense for Bandwidth for sites, centralized platform and disaster recovery location • New expense for SIP Usage
Third Party Fees Paid for Transfer of Funds for Debit Calling	No Decreases	• New expense for fees paid to commissary/trust account companies for integration and on-going fees for fund transfers for debit calling
Field Service Costs	• Reduced on-site repair due to transition to centralized platform	See below IT & Technical Support Staff & Benefits added to support centralized platform
LEC Billing & Collection	• Reduced dependence on LEC Billing	• Increased billing & collection fee per bill page and per message • Increased bad debt reserve percentage
Customer Service and Accounting Expense	No Decreases	• Additional Customer Service expense for 24 hour account set-up • Additional Customer Service expense for customer inquiry • Additional Customer Service and Accounting expense for tax calculation, remittance and refund processing, and inactive account management
Capital Investment in Equipment	• Decreased investment in premise-based equipment	• Additional hardware expense for centralized platform and data storage • Additional hardware expense for redundancy • Additional hardware expense for disaster recovery
Computer Software Licenses, Equipment Maintenance Agreements	No Decreases	• New expenses associated with warranties on platform hardware • New expenses associated with maintenance on platform hardware • New software license expense
IT & Technical Support Staff & Benefits	No Decreases	• Increased requirement for development personnel • Increased requirement for highly skilled networking professionals • Increased requirement for security personnel (i.e. PCI Compliance)

Non-Industry Specific Rising Costs with No Rate Relief

During the same time-frame, Pay Tel, like every other business operating in United States, experienced normal increases in overhead, salaries and benefits expenses. This occurs year after year with no adjustment to state PSC rate caps for local calls therefore no offsetting increase for the majority of Jail call revenue.

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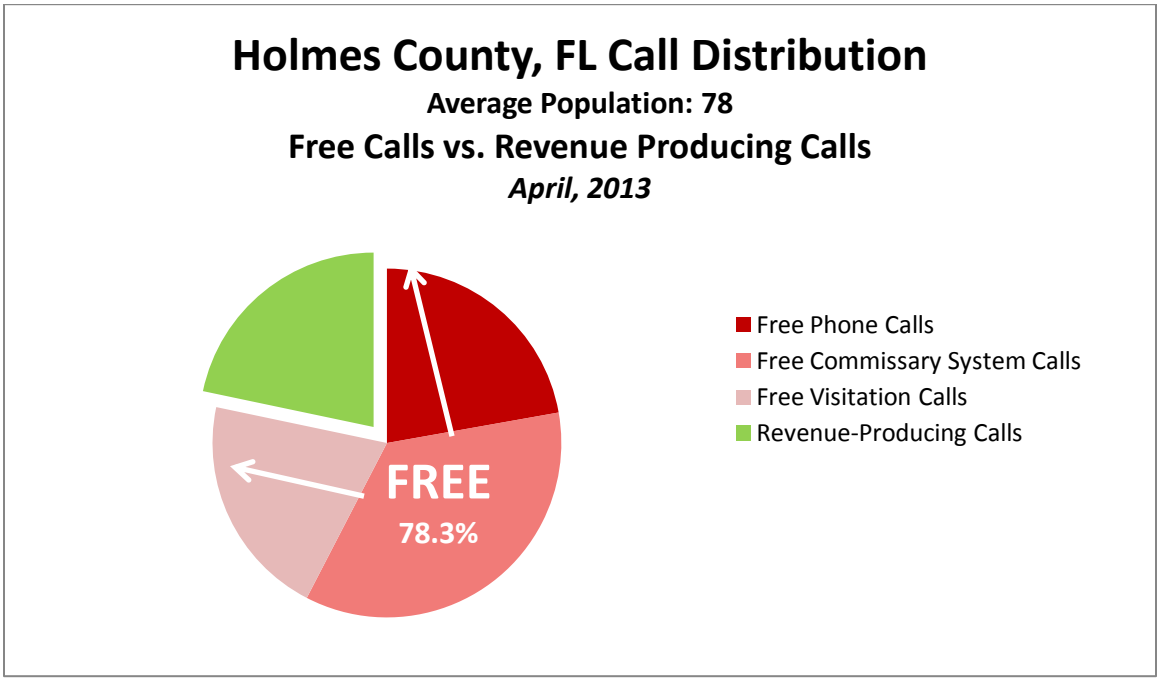
EXHIBIT A

Example Facility - Free Call Data
April, 2013

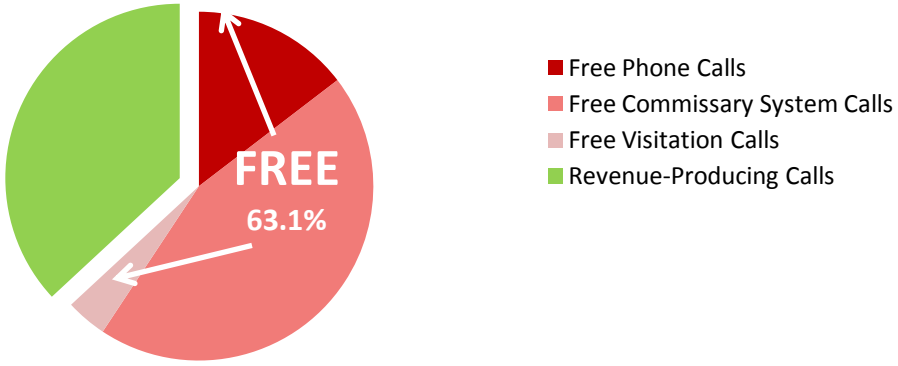


St. Charles County, MO Call Distribution

Average Population: 420

Free Calls vs. Revenue Producing Calls

April, 2013

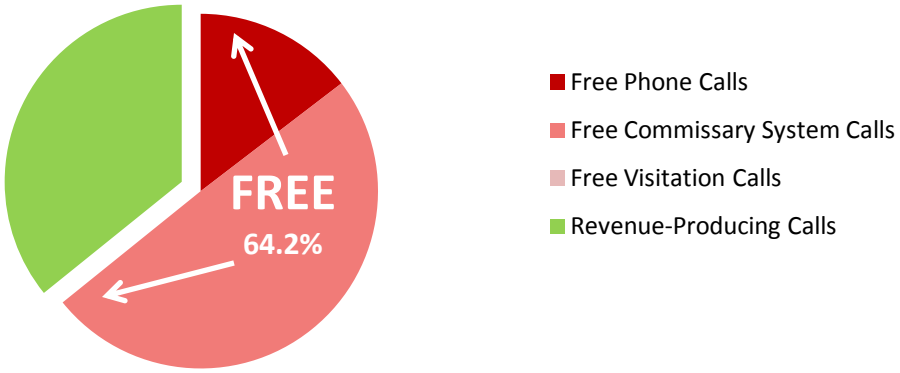


Knox County, TN Call Distribution

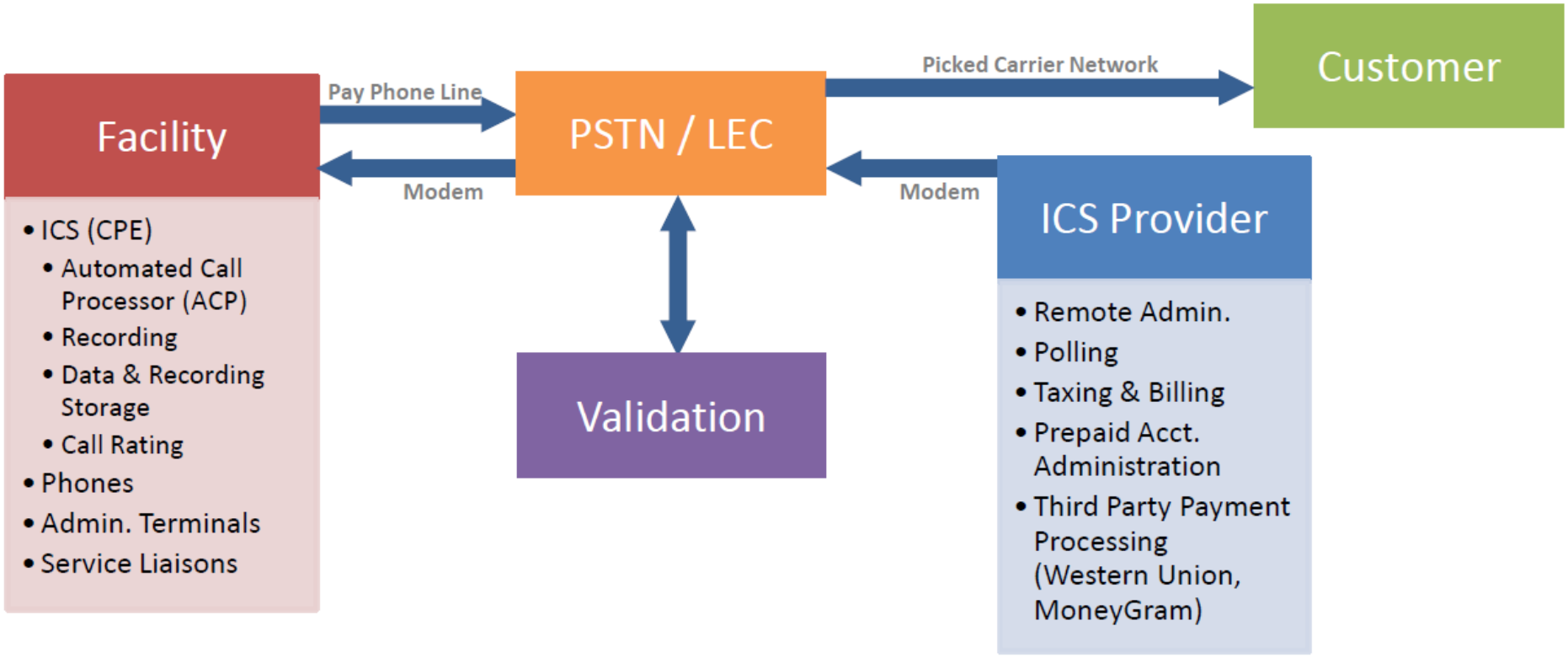
Average Population: 887

Free Calls vs. Revenue Producing Calls

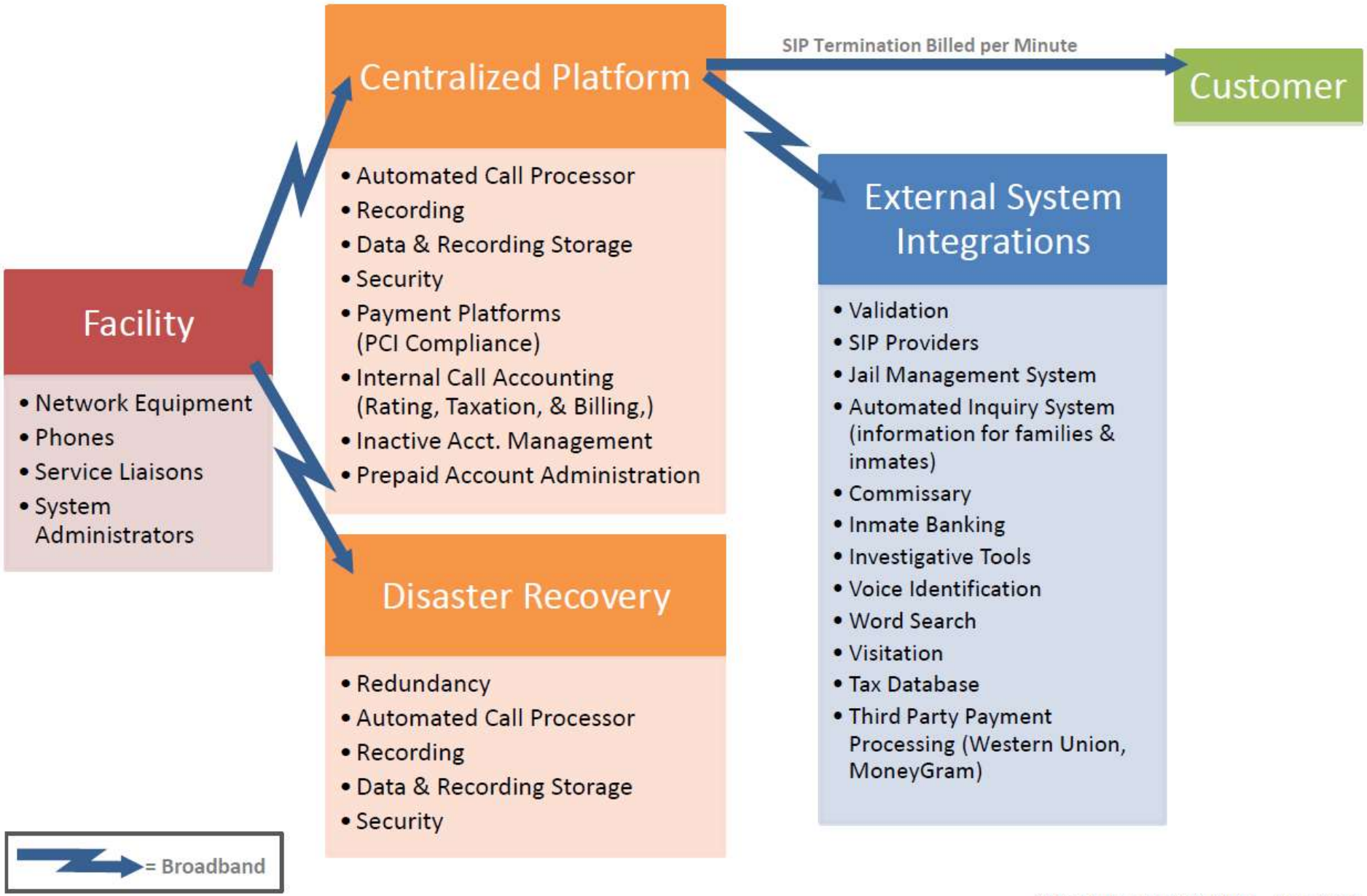
April, 2013

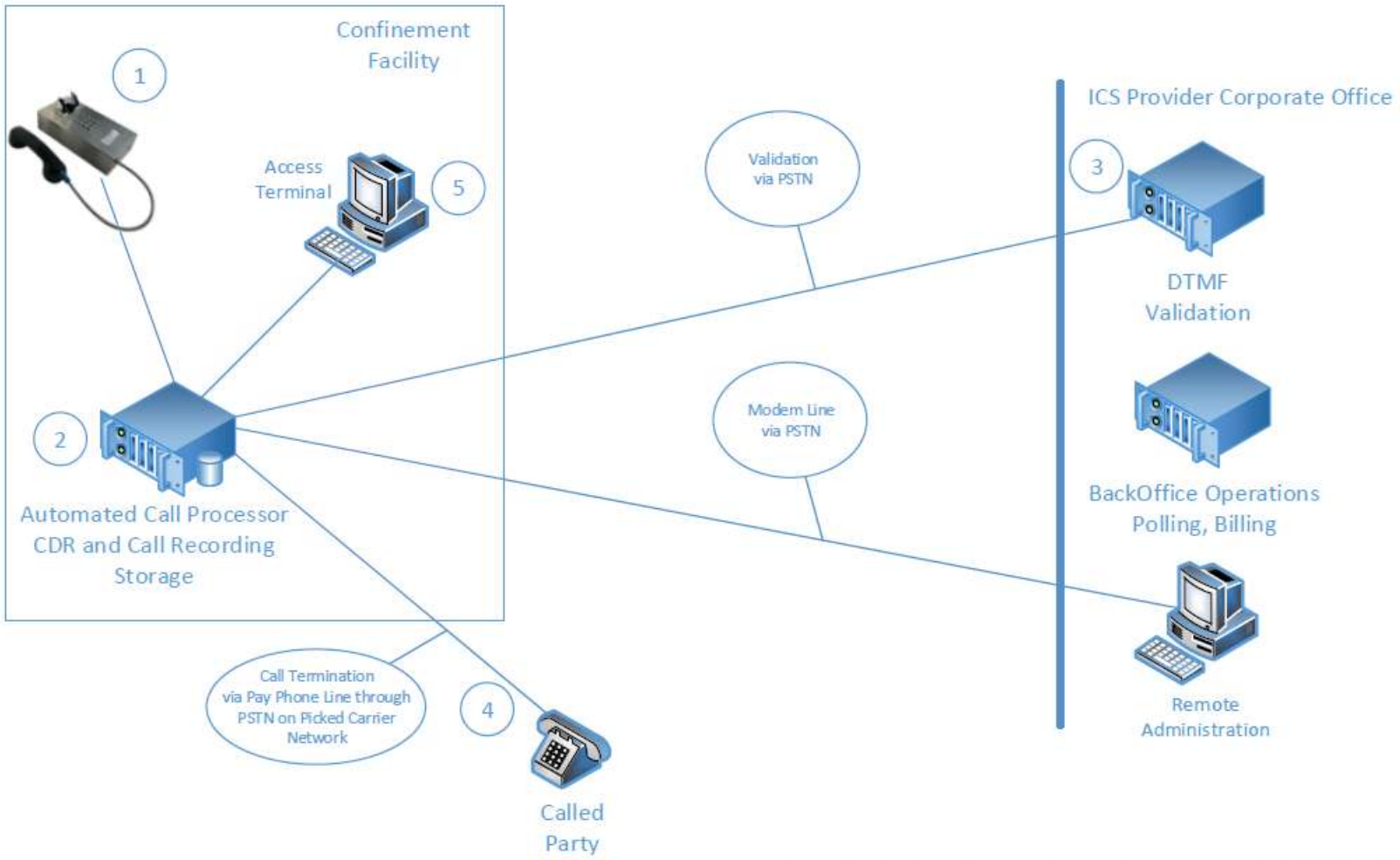


2008 ICS Customer Premise Equipment (CPE) Functionality



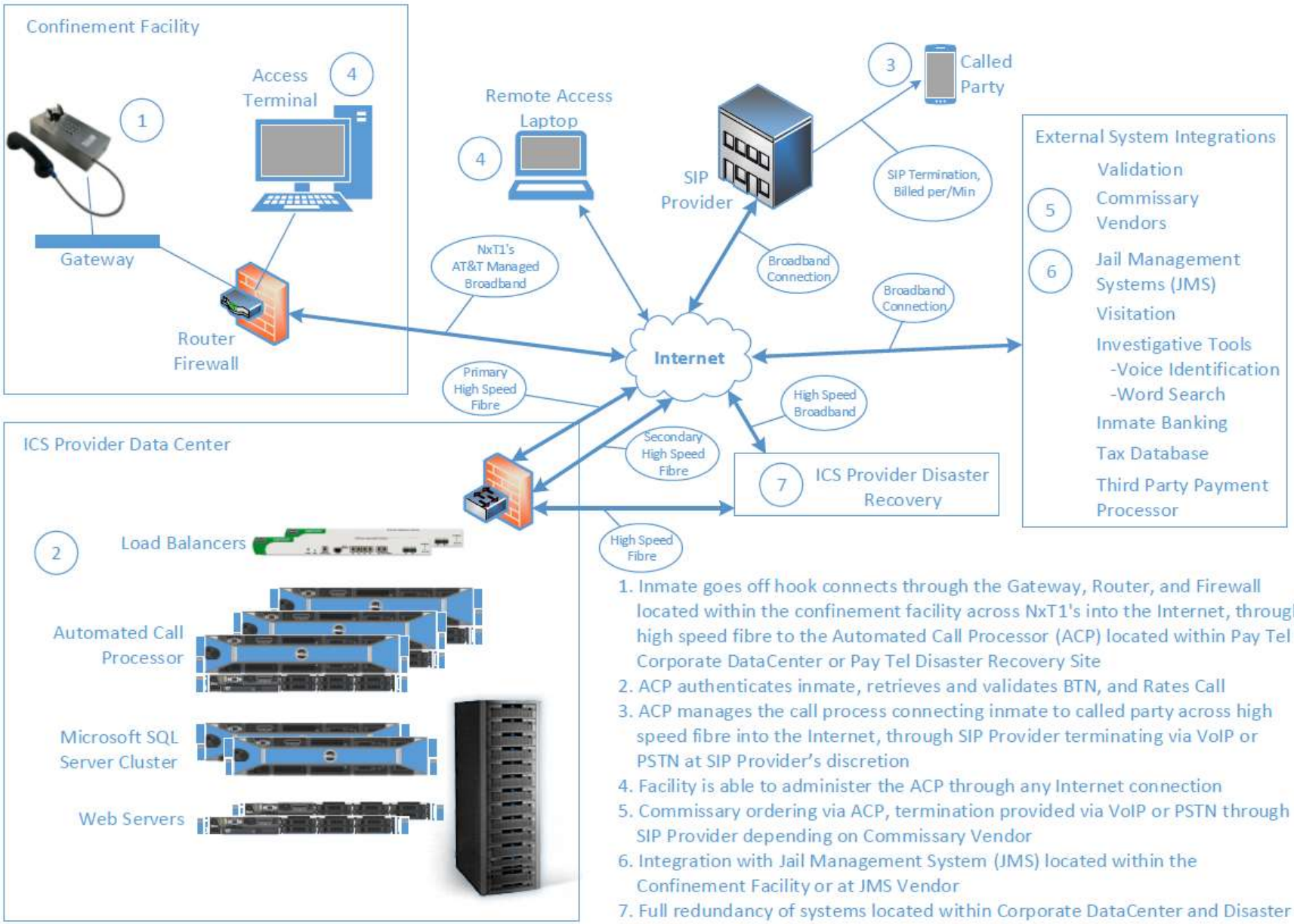
ICS Centralized Platform Functionality





1. Inmate goes off hook, connects to Automated Call Processor (ACP)
2. ACP authenticates inmate, retrieves BTN, and Rates Call
3. BTN is validated via a DTMF validation process across the PSTN
4. ACP connects inmate to called party across the PSTN managing the call process
5. Facility is able to administer the ACP OnSite
6. Call Detail Records (CDR) and Call Recordings are stored in a single instance on ACP

2008 ICS Customer Premise Equipment System Architecture



ICS Centralized Platform System Architecture

1. Inmate goes off hook connects through the Gateway, Router, and Firewall located within the confinement facility across NxT1's into the Internet, through high speed fibre to the Automated Call Processor (ACP) located within Pay Tel Corporate DataCenter or Pay Tel Disaster Recovery Site
2. ACP authenticates inmate, retrieves and validates BTN, and Rates Call
3. ACP manages the call process connecting inmate to called party across high speed fibre into the Internet, through SIP Provider terminating via VoIP or PSTN at SIP Provider's discretion
4. Facility is able to administer the ACP through any Internet connection
5. Commissary ordering via ACP, termination provided via VoIP or PSTN through SIP Provider depending on Commissary Vendor
6. Integration with Jail Management System (JMS) located within the Confinement Facility or at JMS Vendor
7. Full redundancy of systems located within Corporate DataCenter and Disaster Recovery Site, Call Detail Records (CDR) and Call Recordings maintained at a minimum of two disparate locations